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BOOK REVIEWS

Capital and Interest. By MONTGOMERY D. ANDERSON

(Business Publications Co., Chicago, 1934, pp. vii, 202. $2.50.)

Dr. Anderson "ventures to hope that this book will to some extent bridge the gap between" the thought that characterizes "'laissez faire' dogma of the dominant economic systems" and that "school of thought which says there is no limit to governmental interference with business because there are no 'natural' economic laws which may not be altered or modified." It is his opinion that "between these extremes there is virtually no school of thought extant which has been formulated into a compact and well articulated system." Accordingly, Dr. Anderson sets himself to this formidable task in a series of twelve chapters in which the method is both deductive and mathematical.

Under the topic, "The Nature of the Problem," the author offers his own explanation of why cheap money makes interest rates high rather than low and then analyzes Professor Fisher's explanation. Thereafter, he takes exception to Bohm-Bawerk's theory of saving and proposes to show "that it is impossible to store capital values by temporarily reducing consumption and that there is no value product which may be identified as the net income of capital exclusive of labor." The latter thought is the subject of the succeeding chapter, "The Capital Concept," which is concluded with the statement that "every attempt to limit capital to something less than wealth falls to the ground," hence the only scientific definition of capital is "all the economic goods in existence at a given time." From this premise he considers "Production, Consumption and Net Income," rejects the distinction between production and consumption goods and then defines income as "revenue from the sale of goods and services," thus making it synonymous with the volume of production as defined. As for net income, it is "the increase per year in the production per year."

Traditional concepts of "Saving and Investment" are overhauled, and Keynes' definitions of these terms are pronounced unscientific, for investment can have no meaning "other than the expenditure of money for goods and services." As for saving, its significance lies "in the reduction of consumption which it causes" and it is, therefore, socially undesirable "if indulged in by everybody." Society as a whole does not have "to work, wait and save in order to progress; it has only to work and wait." But banks play an important part in the growth of production, since the rate at which values are formed is influenced by the price level, and that in turn is partially determined by the quantity of money. Moreover "a certain amount of the credit extended by banks is a permanent addition to the money supply."

Obviously the thought developed up to this point leads the author into consideration of the rate of interest as a factor governing bank loans, and this problem is approached from the long-run point of view. Here he finds that the rate of growth of net income governs the economic rate of interest, which in turn governs the contractual rate, "while neither of these is affected in the long run by the choice of individuals between spending or lending their money." Indeed, "Supply and demand adjust themselves to the rate; the rate is not adjusted to the supply and demand." And, since interest in the long run is governed by the increase of net income, the interest that is

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by Wilson Gee

THE EFFECTS OF URBANIZATION ON AGRICULTURE

After duly weighing several of the worst ills of an industrial society, with almost no attention to its many good characteristics, a group of brilliant young Southern literary gentlemen came in 1930 to the conclusion that all of them supported "a Southern way of life against what may be called the American or prevailing way; and all as much agree that the best terms in which to represent the distinction are contained in the phrase, Agrarian *versus* Industrial."[1] In connection with this point of view their reasoning in part is as follows: "Opposed to the industrial society is the agrarian, which does not stand in particular need of definition. An agrarian society is hardly one that has no use at all for industries, for professional vocations, for scholars and artists, and for the life of cities. Technically, perhaps, an agrarian society is one in which agriculture is the leading vocation, whether for wealth, for pleasure, or for prestige—a form of labor that is pursued with intelligence and leisure, and that becomes the model to which the other forms approach as well as they may. But an agrarian régime will be secured readily enough where the superfluous industries are not allowed to rise against it. The theory of agrarianism is that the culture of the soil is the best and the most sensitive of vocations, and that therefore it should have the economic preference and enlist the maximum number of workers."[2]

Such an attitude cannot simply be inconsiderately flouted by the thoughtful Southerner of today. It has in it a certain appeal that has evoked a wide attention to its presentation. Several years ago, the author in an article in the *North American Review*, after lamenting the social changes that had come about in the process of industrializing his formerly delightful Southern home town of some 2,000 inhabitants, concluded as follows: "The plea which I would make is not that more industrial development is detrimental to our best interests, local and national, but that this progress should not be accomplished,

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[1] *I'll Take My Stand*, by Twelve Southerners, Harper and Brothers, New York, 1930, p. ix.

[2] *Ibid.*, pp. xviii-xix.

as it has been in many sections, at the expense of a strong country life. And it should go no further than the nice balance that will allow each of these two big phases of our civilization to flourish at its best, mutually contributing in best expression the each to the other and so constituting the only safe basis for the enduring greatness of the Nation.''[3]

However, to argue for a purely agrarian culture in any considerable part of this country, one of the leading urban industrialized nations of the world,[4] is simply not to face realities. For machine industry is here to stay, and in what is the most rural part of the United States today, we need more rather than less of it, only provided it is of the type that elevates rather than lowers standards of living.

That the ''culture of the soil is the best and most sensitive of the vocations'' is an opinion with which the author, as a rural social economist, largely agrees. But he also believes that the inventive genius of mankind finds part of its highest expression in the urban industrialized superstructure that has been built upon the rural base supplied by agriculture. In this connection, though, it is well to state that if industrialized urban communities are, as has been said, the superstructure or the cornice of our civilization, they cannot without ultimate disaster be permitted to develop without due regard to the soundness and adequacy of the rural base.

It is pertinent in this connection to inquire as to what is meant by the term ''rural-urban balance.'' To live effectively modern man must have a variety of elements in his standard of living. He must have food, clothes, and shelter, primarily, but he must also have automobiles, radios, electric refrigerators, money to pay his taxes and to educate his children, as well as many other things. The days of self-sufficiency in our agricultural economy have in most parts of the country long ago given way to a system of commercial agriculture. The farmer demands these manufactured products just as does the city man, and he would demand them still more if he had the means to purchase them in larger measure. So, the farmer requires

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[3] Wilson Gee, "Wanted on Earth," *North American Reveiew*, March, 1928, Vol. 225, p. 309.

[4] It ranks along with the United Kingdom, Germany, Belgium, the Netherlands, Switzerland, and Australia as one of the seven countries in which the numbers engaged in agriculture, fishing, etc., are fewer than those classified as engaged in the manufacturing and extractive industries. (See *World Agriculture, An International Survey*, a report by a study group of the Royal Institute of International Affairs, Oxford University Press, London, 1932, p. 2.)

the products of the manufacturing plants, and the people in these plants require the food materials and the raw products furnished by the farmer.

Theoretically, at least, there should be enough farmers to produce beyond their own needs the food and raw materials required for the effective demand furnished by the people and manufactures of the industrial centers of the Nation and such foreign countries as might be interested in purchasing their products. The urbanites, of course, should be in sufficient numbers to produce beyond their own requirements the products necessary to an efficient standard of living by the farmers of the United States and such effective demand as may exist for their goods in foreign parts.

In line with this determining principle, the argument of an influential group of agricultural economists today is to the effect that too large a proportion of the American people is on the farms. This situation has led to the over-production dilemma in which we find ourselves. They point out the fact that in general the demand for agricultural products is characterized by its inelasticity, and that, for the present at least, foreign markets have become greatly contracted. On the other hand, it is argued, the demand for the products of the maufacturing industries is elastic, capable of indefinite extension. We can consume only so much food—it may be caviar or turnip greens, possibly better turnip greens—but in the matter of better houses, furnishings, moving pictures, automobiles, electric refrigerators, radios, and so forth, the sky is the limit if purchasing power may be developed. Therefore, remove the surplus of farmers from their lands and shunt them into the industrial plants . . . It is suggested that we can possibly get along better in this country with only 5 per cent of our gainfully employed on farms, and still produce adequately for our domestic food needs, for our limited export market, and for the raw materials of industry.[5]

Such a point of view elevates the god of efficiency and proposes for farming much the same organization as that now characterizing big business in this country. It alarms such a capable student of American farm life as Clarence Poe, who has recently said in this connection:

[5] Wilson Gee, *American Farm Policy*, W. W. Norton and Co., New York, 1934, pp. 137-138.

"Perhaps the greatest danger of American country life today is found in the attitude of those who either do not see, or do not care for, any of the profound spiritual or human values in the small farm and the small farmer. 'Efficiency' is their only god and their only standard of worth—and by efficiency they mean efficiency in producing wheat and corn at the lowest cost per bushel and beef, pork, cotton, and tobacco at the lowest cost per pound. They favor this policy even though it may mean the virtual destruction of the American farm home and the substitution of great commercialized or corporation farms of the Hickman Price or Thomas Campbell types—farms on which the average farm worker would be merely a wage-hireling with little hope of farm ownership or wholesome family life and with no opportunity to realize upon the opportunities of farming not only as an industry but as a business, a profession, and an art. These pathetically short-sighted doctrinaires think of the farm as having no value except to turn out low-priced food for the nation just as a steel mill has no function except to turn out low-priced steel.

"Hence, if we are to have the right sort of country life in America hereafter, every farmer and farm woman and every farm leader and farm organization needs to start fighting in this great cause—to preserve the American farm home, the small farm, and the human values that must always thrive best in a land of independent farmers . . . Otherwise the powerful urban interests of America that want cheap food, cotton, and wool, regardless of the ruin of the American farm home and farm community—these interests may force America steadily forward on a policy of big-scale farms and hireling farm-laborers."[6]

It is interesting to inquire at this juncture just what are the rural and urban proportions in the South according to the latest data available. The statement cannot be challenged that the South is the most rural part of the Nation today. Lumping the figures for the 14 states, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, and Texas, in 1930 they contained 24,181,494 rural inhabitants, which was 68 per cent of the total population of 35,500,058, and 45 per cent of the national total of 53,820,223 rural peo-

[6] Clarence Poe, "What Sort of Country Life for America?," *The Progressive Farmer*, Vol. 49, No. 8, August, 1934, p. 26.

ple. Patently, these same Southern states were then only 32 per cent urban. Their aggregate of 11,319,364 urban people was only 16 per cent of the national total of 68,954,823 urban people. The farm population of these 14 Southern states in 1930 was 16,035,263, or 45 per cent of the total population of these states, and 53 per cent of the national total of 30,445,350 persons actually residing on farms within its borders. These figures should be set against the fact that the total population of these states, 35,500,858, is about 29 per cent of the national total of 122,775,046.

Certainly, in the light of these figures, the South has not yet become dangerously urbanized! Florida, with 52 per cent of its population is the most urban of the group, the other states in order of rank standing as follows: Texas, 41 per cent urban; Louisiana, 40 per cent; Tennessee and Oklahoma, each 34 per cent; Virginia, 32 per cent; Georgia and Kentucky, each 31 per cent; West Virginia and Alabama, each 28 per cent; North Carolina, 26 per cent; South Carolina and Arkansas, each 21 per cent; and Mississippi, 17 per cent.

Over the decade from 1920 to 1930, which marks one of the most active periods in the industrial expansion of the South, only the states of South Carolina, Georgia, and Tennessee sustained an actual loss in rural population. However, in the matter of farm population, North Carolina, Alabama, Mississippi, Louisiana, Oklahoma, and Texas were the only states not showing a decrease in the people actually living on farms. There was from 1920 to 1930 a net loss of 461,240, or 3 per cent, in the total farm population of the 14 Southern states. The similar ratio was 4 per cent for the Nation as a whole.

The effects of the depression have undoubtedly reacted completely to offset this loss, for figures[7] from the Bureau of Agricultural Economics as of April, 1933, show that in the South Atlantic, East South Central, and West South Central states there was a pronounced tendency for the farmward movement to exceed the cityward movement.

Of the total gainfully occupied persons in the Southern states in 1930, 41 per cent were engaged in agriculture and 19 per cent in the manufacturing and mechanical industries. The corresponding national percentages were 21 per cent in

[7] *Crops and Markets*, United States Department of Agriculture, Vol. 10, No. 4, April, 1933, p. 134.

agriculture and 29 per cent in the manufacturing and mechanical industries. In highly industralized New England, only 6 per cent of the gainfully employed were engaged in agriculture, and 43 per cent were in the manufacturing and mechanical industries.

A somewhat different picture is presented when manufacturing and agriculture are compared in the Southern states as to the value of annual products. While 1931 is hardly a fair year in which to arrive at satisfactorily comparable figures as between the prices of agricultural products and manufactured products, nevertheless, it is the year for which the latest figures were available. In that year, the gross income from farm production as estimated[8] by the United States Department of Agriculture for the 14 Southern states aggregated only $2,045,967,000, while the value of manufactured products was $5,489,615,000, or 2.7 times as great. The states of Arkansas and Mississippi were the only two in the South in which the value of agricultural products in 1931 exceeded the value of manufactured products.

However, it is much more accurate to make the comparison on the basis of the value added by manufactures. For all industries combined in the South in the same year, the value added to the raw materials by the processes of manufacture was in the aggregate $2,580,152,000, in comparison with a gross income from farm production, crops and livestock combined, of $2,045,967,000, an advantage of only $534,185,000 for manufactures and a ratio more nearly of 1 to 1. Six of the 14 states had an agricultural income greater than the value of the utilities added by their manufactures. These were Florida, Kentucky, Mississippi, Arkansas, Oklahoma, and Texas.

The conclusion may be safely drawn that the South in general is not now over-industrialized, nor is it likely to become so in the near future. The South is still overwhelmingly agricultural; and while her industrial strides have been impressive, the process has taken place in relatively restricted regions. In wide areas the agricultural life has felt but little influence from industry.[9] As a matter of fact, it may well be argued

[8] *Crops and Markets*, United States Department of Agriculture, Vol. 8, No. 11, p. 441.

[9] David L. Wickens, "Adjusting Southern Agriculture to Economic Changes," *Annals* of the American Academy of Political and Social Science, Vol. 153, January, 1931, p. 193.

that the cities of the South are in large measure ruralized centers. It is correct to characterize Southern cities, with few exceptions, as merely grown-up country towns. Their citizens are largely recruited from the surrounding country, and very few of them need go back further than one or two generations to establish their family lines as cultivators of the soil. Moreover, the business operations of these cities still look in a considerable measure to the country trading centers as purchasers of their goods. The trucks of bakeries, wholesale grocers, tobacco supply houses, cleaners and dyers, and dozens of other similar concerns may be seen any day threading their way about the rural hinterland.

Undoubtedly, the marked industrial growth in this region has drawn its human materials from the rural stretches. In some parts of the South this has resulted in rather severe depopulation. A case in point is that of Virginia. A study a few years ago revealed 10 counties (of the total of 100 in the State) where the population was less than it was at the time of the first census after organization, and nine of the 10 were organized before 1790, the date of the first census.[10] But with the higher birth rates and lower death rates prevailing in rural sections in the South, as elsewhere, the country under normal conditions should look with favor on the loss of a reasonable proportion of its population to the city. The important matter in this connection is not the quantitative aspect, but the qualitative one. In this respect, studies[11] of the author, two of them in Virginia and one in South Carolina, point to the conclusion that there is a qualitatively selective effect taking place. The three sections studied show heavy quantitative and proportionate losses of the upper classes of the population composition.

In the study in the Piedmont section of South Carolina, where extensive industrialization has taken place in the last three decades and more, the losses of the lower classes to the cotton mills were also very pronounced, being higher in pro-

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[10] Wilson Gee and John J. Corson, *Rural Depopulation in Certain Tidewater Areas of Virginia*, Century Company, 1929.

[11] Wilson Gee and Dewees Runk, "Qualitative Selections in Cityward Migration," *American Journal of Sociology*, Vol. XXXVII, No. 2, pp. 254-265, September, 1931: "A Qualitative Study of Rural Depopulation in a Single Township: 1900-1930" by Wilson Gee, *American Journal of Sociology*, Vol. XXXIX, No. 2, pp. 210-221, September, 1933; and a similar study, now in progress, dealing with qualitative selection in Stonewall District, Richmond County, Virginia, which is being done in collaboration with Carl Reuss.

portion than in the upper class which entered mainly the professional, business, and clerical occupations.[12] However, the conclusion is inescapable that this area has suffered severely in the absolute and proportionate losses of its best people, with an actual increase in the middle classes.

The study at present under way in Tidewater Virginia is in an area as remote as could well be secured from the pull of nearby cities and their manufacturing industries. Results thus far tabulated show that the greatest losses are from the upper group in Stonewall District, Richmond County, and that the lower group has increased rather than decreased in numbers.

The dangers of generalization from even as many as three studies are frankly admitted, but one feels fairly safe, in the light of the uniformity of the results with regard to the upper classes, in saying that the urbanization processes have operated in many Southern rural areas to produce what has been aptly called "folk depletion."

While the wage of the Southern industrial worker has been shown to be some 30 to 40 per cent lower than that of his fellow worker in other parts of the country, nevertheless, it is generally conceded that the standard of living of the submarginal farmer who left his impoverished tenant farm to migrate to the mills has been improved. Moreover, under the new order that may now be taking form it promises to become still further improved.

The lack of diversification in the agriculture of the South has long been viewed as one of its most deficient features In its post-Civil War development, the South embarked upon a system of farming that placed emphasis upon cash crops of a non-food nature, mainly cotton, but also tobacco. Such a policy might be justified according to theoretical economics in the law of comparative advantage. The North and West cannot grow cotton, but they can supply wheat, corn, pork, and other food products. While the South can produce these same things in abundance, it has chosen more or less consciously to grow cotton and tobacco and to import a considerable volume of its food and feed materials.

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[12] Wilson Gee, *The Qualitative Nature of Rural Depopulation in Santuc Township, South Carolina, 1900-1930*, South Carolina Agricultural Experiment Station, Clemson College, S. C., Bulletin 287, January, 1933, pp. 20-22.

Estimates place the Southern farmer "in the astonishing position of buying for cash approximately $430,000,000 worth of food and feed every year, most of which he could provide at small cost other than his labor. Every year the entire population of these states 'imports' foods and animal feeds from other states to the tune of $1,000,000,000 and depends largely on crops that are not indispensable to pay the bill. Therein lies the economic fallacy. In many Southern states the extent of total retail purchases runs in the order of $2,500,000 per county, while the cash crops, which constitute the only exportable value produced in them, have a value of $2,000,000. The unfavorable balance of $500,000 annually is accounted for by the constantly increasing load of farm mortgages."[13] Set alongside this state of affairs the fact that, except for the State of Florida, there is a surprising scarcity of food manufacturing plants in the South. The business of manufacturing food is geographically concentrated mainly in the Northeastern, North Central, and Pacific Coast states. Such a situation clearly supplements and reinforces the estimates of the large annual food imports bill in Southern territory.

Yet, undoubtedly, the presence of urban aggregations does provide an increased market to the surrounding countryside, not only for its cotton in the textile mills of the South, for tobacco in the tobacco manufacturing plants, for lumber in the furniture factories, but also for fruits and vegetables, fresh and canned, dairy and livestock products. Such encouragement to diversification will increase with further industrial development in the area. This tendency will be made a more wholesome one if the South will enter more largely into the field of food manufactures. This sort of development offers an opportunity for both the manufacturing and agricultural progress of this region, and illustrates clearly the inseparable relationships between the two sets of interests. Decentralized food processing industries, located in the smaller centers and supplied by surrounding rural areas in which the farming interests are built up about the needs of these industries, can very effectively operate to minimize the unfavorable balance militating against the essential soundness of Southern economy, both urban and rural.

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[13] Editorial statement in *Food Industries* for November, 1931, Vol. III, No. 11, pp. 467-469.

The general property tax, and its accompanying train of antiquated systems of taxation, still too largely prevails in the South, but a number of states are increasingly looking to such devices as the income tax, the sales tax, and so on, for their revenues rather than riding the general property of the farmer so heavily for the revenues with which to run state governments, thus relieving the localities of a part of the oppressive tax burden on their visible property. Wherever industrial plants arise and business and commerce expand, they add to the tax sources of a state in many ways and thus tend to make easier the development of adequate revenues. The rural majorities in our legislatures in the South usually have sufficient political strength to see that the urban wealth is taxed to provide equalizing funds to insure better schools, roads, and health for the country sections.

Speaking of social institutions and standards of living, it would be impossible to overemphasize the influence which the more efficient modern schools, libraries, houses and furnishings, streets, health units, welfare agencies, dietary standards, and so forth, have had upon the similar interests in the rural hinterland. It is in the cities of the South, as elsewhere, that these innovations have first taken place, and their influence spreads out in a flood-tide to the surrounding countryside. Country people in this way have been led to desire and demand such facilities, public and private, more nearly in equality with those enjoyed by their urban neighbors, brothers, and sisters. To cite only two examples, and those in the nature of a question: How far do you think good roads would have developed in the country if it were not for the cities and the concomitant desire and necessity of country people's getting to these centers at the most urgent solicitation of their chambers of commerce, city councils, and other leading citizens? And is not the urge for reform in county government today in considerable measure the resulting influence of the success of the city manager plan of government? It would be possible to trace such influence in multitudinous directions, but the two examples just given must serve as indicative.

But, someone will say, there is another side to the picture. Have there been no adverse effects on agriculture accompanying the industrialization tendencies in the South? And the answer must be that there have been disadvantages as well

as advantages. A striking one of these is the great extent of unemployment which characterizes the depression phase of the business cycle in its impact upon the industrialized community. As early in the depression as April 1, 1930, the federal census on unemployment revealed that among a total of 5,478,959 gainful workers 10 years of age and over in agriculture in 14 Southern states, only 30,138, or 0.55 per cent, were out of a job, looking for a job, but unable to find one. The corresponding figures for the manufacturing and mechanical industries were 2,554,574 gainful workers 10 years of age and over, and 190,897, or 7.5 per cent, out of a job, looking for a job, but unable to find one. Unfortunately, comparable figures for January, 1933, are not available. Certainly, however, until we learn how to control the business cycle agriculture is more stable as a source of employment and more certain toward providing a living than are the manufacturing and mechanical industries.

Increasing urbanization in the South, as in other parts of the Nation, has no doubt operated to decrease birth rates, the greater the extent of the city influence the greater the decrease in the birth rate. Divorce rates are higher in both urban and rural areas as a result of changing mores in this regard emanating largely from the cities. The urban centers are the breeding grounds of many forms of vice and crime, and there would perhaps be little difficulty in showing that with increasing urbanization the tendencies in this direction are more largely invading the rural sections.

To many persons the worst feature of all is that the civilization of the South is becoming standardized—like that in other parts of the Nation. For example, West Virginia is already like Pennsylvania, and Atlanta in certain ways resembles New York. It would be difficult to say how much of this is really due to urbanization, how much of it to essential qualities which breed likeness, and how much of it is inevitable because improved communication and transportation facilities knit the whole country more closely together.

It is the opinion of the author that most of the ills of the South are attributable to agriculture itself. The facts that cotton is the barometer of economic healthfulness in this part of the country, that the returns of the farmer in this region are less than those in any other large part of the Nation, that

the blight of tenancy spreads widely over the land among Whites as well as Negroes, that the South still pays a penalty for the widespread acceptance of the institution of slavery in former years—all of these and like things have been said so often that they have become truisms. Certain it is that scientific procedure requires that these limiting factors in the economic life of the South be eliminated before one can say that the development of industry is the thing which is going to ruin the South.

A study[14] made a few years ago at the University of Tennessee gives objectivity to the contentions just made. In it 13 groups of counties were selected as representing various combinations of four factors in farm wealth retention. These factors were fertility of the soil, diversification, White population ratio, and industrial development. The groups remote from the small or large city influence were far below the ones that were so located in the number of times the farm wealth was of the annual net farm income. Of course, one might argue here that the farmer's wealth is mainly in terms of land, and that land is higher in price the closer it is located to a city. But the price of land is usually some index to the profitableness of that land, and not all a matter of speculative value because of the possibility of future urban development in the area. A similar analysis of groups of states led to the following conclusions: "New England affords a striking illustration of the effects of industrialization. Group III, consisting of Connecticut, Massachusetts, and Rhode Island, has a retention ratio of about 10.4, while the more remote states of Vermont and New Hampshire have a ratio of about 6.5. It is interesting to note in this connection that, although the soil is poor and rocky in New England, the ratio of retention in most of it is much higher than in the South. Maine, however, is quite different from the other New England States and affords a good illustration of the principles set forth above. There is but little urban influence, the soil is poor and rocky, and diversity but little practiced. This set of circumstances leads to a retention ratio of only 3.7."[15]

Far more is to be gained by charting the course of agricul-

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[14] C. E. Allred, "Wealth Retention in the Rural South," in *The Country Life of the Nation*, edited by Wilson Gee, University of North Carolina Press, 1930, pp. 20-35.

[15] *Ibid.*, p. 30.

ture and industry in proper relation each to the other than by attempting to decry the development of industry in the already too agrarian South. What the South most needs to concern herself about is that the industry established within her borders shall be characterized by economic soundness and social justice.

BOOK REVIEWS—*Continued*

(Continued from page 2)

paid to banks in a year measures the increase in bank loans. It may therefore be said that "banks virtually create the money to pay themselves interest,"—also a long-run concept.

It now becomes possible to consider short-run fluctuations. Here Dr. Anderson finds that the "velocity of money has little or no effect on prices even in the short-run," the opinion of Snyder and Kemmerer to the contrary notwithstanding. "The velocity of money does not act causatively to increase the price level, because its effect thereon is offset by the increased turnover of goods. The cause of the price-level rise is the hidden factor, commercial credit." Hence, "the business cycle is not primarily a monetary phenomenon in its origin"; it is a goods problem. And, of the goods involved, fluctuations in their stock may be traced to "the unavoidable vicissitudes of agricultural production." The latter often take the form of excessive production, which will only lead to contraction of bank credit because bankers will expect a fall of prices with increased production. Contraction of credit will bring falling prices and diminished consumption because of increased saving by frightened consumers. Depression results. If a large amount of bank credit could be put out at the strategic moment this result would not ensue, but this remedy is impossible under existing conditions; hence economic isolation is desirable since the control of credit and the price level might be achieved on a national basis. The main point is that "in the short run, variation in the contractual rate of interest is governed . . . by the technical position of the banks with respect to reserves."

Dr. Anderson then passes to "Criticism of Competing Doctrines," including those advanced by J. B. Clark, Marx, Bohm-Bawerk, and Irving Fisher. No one of these rival doctrines of capital and interest measures up to the logical standard developed by him and they are, therefore, rejected. There follow a mathematical statement of the long-run solution of the problem of capital and interest and two chapters on "Inductive Verification." These are of particular interest to those who are mathematically minded, since they convey in a short space ideas that cannot readily be imparted in many pages of deductive analysis.

In the final chapter, "A Program of Public Policy," as one might expect, Dr. Anderson favors a government monopoly of banking, since control of the money supply is too important to trust to private interests. In the next place, such a control of banking would enable the government to create its own derivative deposits and thereby save a vast amount of contractual interest to the Federal treasury. To this reason he adds the following: "A private monopoly permits the special

interests . . . to reap an extortionate profit for the provision of a public necessity." A privately owned "banking monopoly is the mother of other forms of monopoly," and, finally, a federal monopoly of banking would make possible the substitution of "complete flexibility in the money supply" for the gold standard. This argument is followed by another: "Steps must be taken to discourage saving" in order to minimize the severity of depressions. Having thus made a case for state socialism, Dr. Anderson concludes with a warning that "there is always danger that under socialism the mad rush for power by capitalists may be superseded by an equally mad rush for power on the part of government officials."

The reviewer finds himself unable to accept much of Dr. Anderson's excellent analysis. There is nothing in the history of our people, nothing in their behavior, that justifies one in turning from the evils of capitalism to those of socialism. Quite the contrary. Aside from that, the reviewer finds himself unable to accept certain theoretical conclusions advanced. Without defining the term inflation, Dr. Anderson believes that it is necessary, within limits, if profits are to be continued as the force essential to the stimulation of production. He holds that "the point is not even debatable." For my own part, I find more strength in the reasoning of Habeler in support of "neutral money" as the soundest basis for the survival of private capitalism.[1] Even if inflation were essential, the case made by Dr. Anderson in behalf of inflation by a government bank adds little to the charm of the prospect. But inflation is not only not desirable; it is dangerous, for "The economic equilibrium is disturbed by the constant temptation and desire to obtain the necessary capital without the arduous process of saving."[2] Indeed, it seems to me that Hansen has already disproved much of the argument advanced by Dr. Anderson in respect to inflation, and also in respect to saving. Likewise, Dr. Anderson's contention against the influence of velocity of money on prices has been successfully controverted by Kemmerer[3] and also by Snyder.[4] It should be said, none the less, that the author has analyzed with admirable clearness some of the prevailing concepts of laissez faire economics, and he should be given credit for presenting a consistent theory for an economic system that is in certain respects less faulty. However, this holds essentially for a long-run approach to economic problems and it leaves much to be desired as a theoretical basis for short-run problems. Even so, the author develops his proposals for reform of short-run problems on the basis of his long-run analysis and thereby leaves certain obvious weaknesses in his argument, some of which have been referred to. On the whole I am disposed to urge students of economics to read this book with thoughtfulness, since it is a conscientious effort to bridge the gap between the old economics and modern trends that have no philosophical basis whatever.

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[1] *Gold and Monetary Stabilization:* Harris Foundation, 1932.
[2] Hansen, *Business Cycle Theory*, p. 181.
[3] *ABC of the Federal Reserve System*, 9th edition, pp. 134-138.
[4] *Business Cycles and Business Measurements*, pp. 152-153.

Agricultural Readjustment in the South—Cotton and Tobacco. A Symposium. (Durham: Duke University School of Law, 1934, pp. 397. $0.60.)

Law and Contemporary Problems, published by Duke University, devotes the June 1934 issue to a symposium of the subject, "Agricultural Readjustment in the South—Cotton and Tobacco." Nine topics, logically integrals of the general subject, are ably presented by ten writers. This variety of writers naturally brings to the subject a certain diversity of approach. Furthermore, the selection of writers with sociological, economic, legal, and general agricultural training and experience gives the reader an opportunity to focus his attention from advantageous angles.

It is apparent that these expositions have been developed from painstaking research and put together with skill. As contributions to our present serious agricultural problems, they are entitled to more than passing notice. In the opinion of the reviewer, this group of articles is worth keeping for future reference, and in addition it is of immediate, real value to those of the South interested in the agricultural adjustment activities respecting cotton and tobacco.

Putting together a group of expositions in one issue has the advantage over single shooting in giving the student or worker in agriculture an opportunity of making a searching analysis of this problem with the thought and stimulating discussion of ten trained people before him in compact form.

"Human Factors in the South's Agricultural Readjustment," by Dr. Rupert Vance, is a vigorously outlined picture of the bleak side of cotton production, with a ponderous but precise discussion of tenantry. The legal aspects of tenantry are thoroughly explained. One of Dr. Vance's most searching sentences is this, "It can hardly be denied that the depression, the assumption of the burden of relief by the federal government and the official enforcement of restricted production are showing Southern landlords means of relieving themselves of responsibilities of which they are glad to be rid."

Dr. Vance's particular contribution is principally descriptive, and descriptive of the ugly side of us, without any suggestion regarding the way out. In the last paragraph he states that "over 60 per cent of the farmers in eight Southern states are wellnigh homeless wanderers on the face of the earth, croppers and tenants." His parting speculation is that peasantry might be better than this.

"Cotton Acreage Reduction and the Tenant Farmer" is another segment of this symposium. Dr. Paul W. Burton concisely and clearly describes the legal nature of landlords, share croppers, share tenants, and standing renters, on the one hand, and the methods used by the Agricultural Adjustment Administration in distributing benefit payments, on the other hand. His general conclusion is, "If we are not to be irrational optimists we must not be surprised to find that the inequitable distribution of benefits and radical reduction in the number of tenants needed in cotton production will result in a definite lowering of the economic status of a large portion of the Southern agricultural population." No definite data are given to show that there has been a radical reduction in the number of tenants, or that, because they are not now needed for reduced cotton production, there will soon be an actual turning of Southern farmers into the big road. That is, of course, the phase of cotton reduction that the Agricultural Adjustment Administration is now struggling with.

"Agricultural Cooperation in Tobacco," presented by Professor John Hanna, who served with the War Finance Corporation during the period when that agency was lending money to centralized cooperatives, is a comprehensive account of tobacco from Colonial times down to the present. The contrast between two centralized tobacco cooperative associations of the decade following the World War, both of which "failed," is certainly well done. One "with its skilled and experienced management, its valuable warehouse properties, and its strong financial position—was defeated by its successes rather than by its errors." The other "created on a machine-made pattern that took little account of tobacco problems" was defeated by its mistakes and by economic factors beyond the control of those in charge.

The story of flue-cured tobacco in 1933 and 1934 would if written undoubtedly sound too much like a fairy tale to be accepted as realism. The tobacco producers, with the effective leadership of the AAA bargaining with the Big Four tobacco companies, were enabled in 1933 to get the parity price, some of which apparently came from what would have been profit to the manufacturers. The about face of the flue-cured tobacco industry is partly depicted by Dr. Joseph G. Knapp and Mr. L. R. Paramore, both with North Carolina State College at the time they wrote their discussion of "Flue-Cured Tobacco Developments Under AAA." The rest of the story developed in 1934 after their article was published, yet the wealth of statistical material given is now and will continue to be of excellent reference value for future studies.

"Production Control by Taxation," by Professor David F. Cavers; "The Bankhead Experiment," by Paul J. Kern; "In Defense of the Bankhead Act," by Dr. G. W. Forster; and "Congressional Power to Control Cotton and Tobacco Production" are expositions complementing and supplementing the others on the general subject of planning and controlling production of tobacco and cotton.

The group of articles is nicely capped with an analysis of "Rural Relief in the South; FERA's Problem in Eastern North Carolina," by Mr. Gordon W. Blackwell. The account of "Small Farm Owners on Relief" is a contribution to the subject of subsistence farming. Mr. Blackwell states in this connection: "Over an average farming experience of eighteen years, all of these farmers have raised food and feed crops yearly, more than two-thirds raised enough or almost enough to care for home consumption needs. These farm families have not been slaves to a single money crop, only one-fourth reporting that they usually devote most of their acreage to products raised for market."

Speaking generally, the contributions are academic and without strong conclusions, although Dr. Forster says, "The AAA program and the Bankhead Act must be judged on the issue of whether or not agricultural production can be adjusted so that our agricultural resources, including land, labor and equipment, will be used more economically. A close study of the facts indicates that this is in course of accomplishment." On the other hand, Professor Kern states, "Until proof is presented that there is a social, as contrasted with a price, overproduction of cotton, it is dangerous from the social standpoint to restrict production—it is impossible to be wholly enthusiastic about present unscientific measures, salutary though they may be as pioneers of a planned economy."

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Basic Economics. By J. G. EVANS

(Chapel Hill: University of North Carolina Press, 1934, pp. 139. $1.50.)

This short book by Mr. Evans is a radical departure from the traditional treatment of economic principles. Although it should not be considered as a substitute for a general principles text, it may be of extreme value as a supplement to such a text. The author has rather devoted his time to explaining the points at which the classical static theories tend to break down in a dynamic world.

The book, having been written during a period when the world is critically questioning the economic theories that have been dominant in the past, seeks a revaluation of those theories, assuming a changeable, dynamic order.

The function of economics as seen by Mr. Evans is "the science of the effective use of resources through social organization." The questions raised by the author are: first, what are our resources, and second, how can these resources be used to the best advantage?

In the first part of the book the author spends considerable time in excellent discussions of three concepts difficult for the student to grasp. Chapter III is devoted to the law of diminishing returns, which is explained at length with numerous examples. Capter IV deals with the law of comparative advantage, while Chapter V concerns itself with the least-money-cost combination of resources. The treatment introduces historical tables in order to illustrate how changed conditions alter the whole price combination set-up.

In the last half of the book the use of resources and their proper pricing is treated. The concluding chapter, Chapter XII, bears the title, "The Background of Economics Today." In it the author quotes rather extensively from contemporary writers, developing the general thesis that the economic order is rapidly changing, and that the former generalizations called economic laws have undergone profound change and will continue to be changed, particularly in the direction of additional governmental regulations.

The book does not cover the whole range of economics but dwells particularly upon certain controversial points in a manner that is effective if at times abrupt—the latter quality arising because of an effort to keep the length of the book at a minimum. As an accessory to a regular text it should serve excellently, but not, I believe, as a text. There is doubtless a value to certain of the generalizations or "laws" that have been worked out by previous schools of economic thought; and I do not believe that Mr. Evans himself desires to omit them from consideration altogether.

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Negro Intelligence and Selective Migration. By OTTO KLINEBERG

(New York: Columbia University Press, 1935, pp. 64. $1.25.)

This carefully done little monograph deserves the reflective consideration of all Southerners, and especially of those of us who have not in the past been so thoughtful concerning the direct and inferential problems raised by its subject. It merits particular attention from economists, sociologists, educational officials of all grades, and in general from all among us who are involved in the attempt to shape the South's destiny toward a happier and more effective utilization of its natural and human resources.

By means of intelligence tests, the defects of which he gladly acknowledges, the author undertakes to investigate the customary assertion that the process of Negro migration entices the intellectually superior Negro out of the South and leaves the South with a definitely inferior group. For this opinion he can find no evidence. On the contrary, he discovers that the intellectual capacity of Southern Negroes, as measured by intelligence tests, improves in pretty direct proportion to the amount of time spent in Northern schools and in the stimulation of Northern environment. From the use of school records in the South, he can uncover no indication that the Negroes who leave are superior to those who remain. It is only that their mental accomplishments, once out of the South, are superior to the same accomplishments of those who stayed behind.

Mr. Klineberg's work strikes the reviewer as exceedingly careful and dispassionate and thoroughly commendable. He draws few implications from the facts he outlines, but possible conclusions for Southern White migration are worth contemplating. The fact, moreover, that the army mental tests showed Negroes from several of the Northern states to have higher ratings than Whites from several of the Southern states must inevitably raise a whole congeries of questions regarding the South. The inferences for Southern educational policy, alike for Whites as well as for Negroes, are too obvious to be avoided.

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